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MECHANISMS PURSUANT TO ARTICLES 6, 12 AND 17 OF THE KYOTO PROTOCOL

Synthesis of proposals by Parties on principles, modalities, rules and guidelines

Note by the Chairmen

Addendum

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Introduction

1. This addendum contains a compilation of proposals by Parties, identified by sources, on issues to be covered in the appendices referred to in the revised and consolidated synthesis of proposals by Parties prepared by the Chairmen of SBSTA and SBI (FCCC/SB/1999/8). Some of the proposals presently allocated to parts two to four of the document may eventually be transferred to these appendices and vice versa.

2. Submissions received prior to and during the tenth sessions of the subsidiary bodies are contained in document FCCC/SB/1999/MISC.3 and its addenda. Further proposals are contained in document FCCC/SB/1999/MISC.10 and Add.1.

I. APPENDICES TO PART TWO: ARTICLE 6 PROJECTS

A. Baselines

B. Monitoring, reporting, verification and certification/issuance of ERUs

C. Registries

(Note: A detailed submission by New Zealand on national registries, including features for their design and associated reporting requirements, is contained in document FCCC/SB/1999/MISC.3).

II. APPENDICES TO PART THREE: CLEAN DEVELOPMENT MECHANISM

A. Baselines

3. Methodologies for calculating emissions reductions or removals will be critical to the success of the CDM. For projects to be registered under the CDM, baselines will need to be established. Baselines methodologies will need to provide a basis for ensuring that reductions or removals are real, measurable, and have long-term mitigation and/or sequestration benefits that would not have occurred in the absence of the certified project activity. **(Australia et al.)**

4. To date, baseline discussions have focussed on two approaches: project-by-project and standardized baselines. [...] Experience gained from the AIJ pilot phase on baselines will also be helpful. **(Australia et al.)**

5. How additionality is assessed will depend on which methodologies a project developer uses. Under a project-by-project approach, developers would have to establish a base case against which the project's emissions will be compared. If the project's emissions are below the

case by case, then it would be considered additional. Standardized baselines for a type of project, for example benchmarking, could be developed to distinguish between those activities that generate GHG reductions in excess of the baseline and those that do not. Activities that perform better than the benchmark would automatically be considered additional. Transaction costs and reporting requirements are likely to vary by the approach taken. **(Australia et al.)**

6. Methodologies for Calculating Reductions in Emissions by Sources and/or Enhancements of Removals by Sinks - including for establishing baselines (must include requirements for information to be provided to the operational entities, including background documentation and data needed for the operational entities to approve/accept the baseline). **(Australia et al.)**

7. There is a need to establish at the project level a baseline which reflects the "no project" scenario, "what would have happened in the absence of the project activities". This reference should be decisive in quantifying the emission reductions that are available for a transaction. **(Costa Rica)**

8. The difference between the baseline and the project's emissions or removal scenario will determine the net environmental benefit in terms of emission reductions. **(Costa Rica)**

9. On grounds of environmental effectiveness, the baseline used must be strictly the best available, although in some cases in particular it will be necessary to use projections from a specific sector of the economy. **(Costa Rica)**

10. Baselines, once certified, should remain static for the lifespan of the project. However, the baseline by sector may be revised periodically if the CDM Executive Board so decides, for subsequent application to new projects. **(Costa Rica)**

11. The establishment of baselines for determining the emissions reduced must be on a project-by-project basis for quantifying the level of emissions that most likely would have occurred in the absence of certified project activity. **(India)**

12. It is important to consider the regional differences for the baseline calculation, being for that pertinent the baseline adoption from the average of the technology types applied in the region. For regional average calculation to be used for the clean development mechanism as well as for joint implementation, Annex II countries to the Convention will be excluded in the calculation. To determine CO_2 equivalent metric tons reduction, regional average emissions are compared with the above-mentioned project technology emissions. **(Peru)**

13. For the calculation of the emission reduction units (ERUs) in the case of joint implementation or certified emission reductions (CERs) in the case of the clean development mechanism, the procedure will be as follows:

(a) The difference between project emission levels and the OECD average will be converted in emission reduction units (ERUs) or certified emission reductions (CERs), for the benefit of the Annex I country, as appropriate,

(b) CO_2 equivalent metric tons reduced that are not assigned to the investor country, will form part of a future options system for the country in which the project is accomplished. **(Peru)**

14. As an example: Consider a power plant fuel conversion in Peru. The Latin America average is 550 units. The OECD average is 450 units and the CDM/JI project emits 400 units. The credits accruing from this projects for an Annex I Party would be 450 units-400 units=50 units. The 100 units representing the difference between the Latin American Average and the OECD average, which are not assigned to the Annex I country, are banked by the recipient country. **(Peru)**

15. *Real, measurable and long-term environmental benefits*: These criteria should be complied with by each JI and CDM project. In result of their implementation, emission reduction of greenhouse gases should effect really, and its amount must be greater than any measurement error or than any estimate. Reduction should be sustainable in character and it must long for all the period of effects from implemented technology. Such reductions also cannot result in the increase in emissions from remaining production plants of the same sector (i.e. elimination of „leakage" by means of making impossible to transfer an old technology to another plant). **(Poland)**

16. *Criteria for real, measurable and long-term benefits related to counteracting the climate change*: One of the proposals for indirect assessment of these benefits is the assessment of reduction achieved by JI and CDM projects. Such projects should:

(a) Secure reduction, that will be essential in relation to reference scenario, i.e. it will exceed the error level of emission estimates;

(b) Include only such projects, whose emission amount is measurable or it is possible to its assessment;

(c) Lower emission resulting from project should be stable and it should sustain during lifetime of implemented technology. **(Poland)**

17. Reference scenarios constitute the basis for assessment of additionality. Because of this reason, the matter of development of methodological basis becomes particularly important.

For both mechanisms (CDM and AIJ) a joint methodology should be established. It is possible to set-up a reference level based on macroeconomic development prognosis for economic growth, growth in population and other factors, but this is difficult to determine in a reliable way. Moreover, such information is less useful for individual projects. Therefore, it is necessary to develop methods for the development of such scenarios. **(Poland)**

18. A baseline would be defined at national levels by countries [as per national communications] **(South Africa)** [possibly backed by] **(Sierra Leone)**/ [combined with] **(South Africa)** project-by-project baselines. **(Sierra Leone, South Africa)**

B. Validation/registration

19. Modalities and Procedures for Registration – including provision of information to operational entities, protection of proprietary information by operational entities, and provision for payment to operational entities for fees and expenses for project registration and certification, as set forth in Appendix A. **(Australia et al.)**

20. Methodologies for Calculating Reductions in Emissions by Sources and/or Enhancements of Removals by Sinks - including for establishing baselines (must include requirements for information to be provided to the operational entities, including background documentation and data needed for the operational entities to approve/accept the baseline). **(Australia et al.)**

21. That the amount of tons of CO_2 equivalent — or other unit that will finally be adopted to express the reductions claimed in the CERs generated by a project activity— should be sanctioned by the Parties to the Protocol, considering adequate error limits compatible with the accomplishment of FCCC objectives. **(Chile)**

22. The authority for any statement on the issue of sustainability of CDM projects, resides in the sovereign decisions adopted by the CDM national regulatory entities that will be set up in the Parties where the projects will take place. The international regulatory authority (i.e., the Executive Board) will only make a declaration, if necessary, on the consistency between the sustainability claims of CDM projects and the international agreements that deal with the issue of sustainable development. **(Chile)**

23. The eligible activities must be compatible with those activities noted in Article 3.3 and 3.4 of the Kyoto Protocol. **(Chile)**

24. For every project that fulfils the criteria established by the COP/MOP in order to become part of the CDM and be validated by the corresponding authorities of the CDM, a participating Party can request the retroactive verification and accreditation of the emission reductions gained since the initiation of the project, but not before the Party where the project took place had ratified the Protocol, and never before the year 2000. **(Chile)**

25. Financial additionality is derived from the concept of environmental additionality and relates to whether the project activity would have existed in the absence of economic valuation and internalization of the emission reductions from the project which are being acquired by the investor from the Party included in Annex B to the Kyoto Protocol. **(Costa Rica)**

26. Financial additionality should be quantified in terms of impact of the economic valuation of the emission reduction on the project finances. It will be necessary to compare financial indicators (internal rate of return, net present value and equivalent annual value), drawn up in the light of the flows of funds with and without the economic valuation of the emission reductions from the project during its lifespan. **(Costa Rica)**

27. The establishment of a certification process should be complemented, at the project level, by a system of guarantee against risks which will ensure the continuance of the real mitigation effects during the specific period of certification. **(Costa Rica)**

28. In view of the above, risk analysis should form part of the minimum requirements for certification and should be the ultimate responsibility of the executive board. **(Costa Rica)**

29. REQUIREMENTS FOR PROJECTS PRESENTED UNDER THE OGCDM

I) Political Institutional

I a) Congruent with the political standards of the host country for the sectors involved.

I b) Respect for the host country's legal framework.

I c) Promote the active participation of the social actors involved, in the design and execution of projects.

II) Socioeconomic

II a) Direct influence of the project in the socioeconomic situation of the area of influence and the host country.

II b) Diffusion of the projects' scope beyond itself.

II c) Additional effects (indirect) of the execution and functioning of the project.

III) Technical

III a) Environmental service. Net effect on the reduction of GHG (Calculation of baseline, fixation net results of the project, additionality, permanence, and leakage).

III b) Quantification of reduced, avoided or sequestered emissions.

III c) Clearly define:

- Baseline
- Additionality
- Monitoring plan
- Verification

III d) Explain the negative effects to be produced in the absence of the project.

III e) Present calculus digest.

IV) Economic and financial

IV a) Financial and economic analysis. (IRR, reserve funds, financial flow)

IV b) Estimates of the integral costs of implementation and maintenance of the project for the duration of the compromise.

IV c) Indicate additional sources of financing.

V) Others

V a) Contribution to the sustainable development of the host country.

V b) Technology transfers from the Annex I Party to the host country.

V c) Contribution to the Bio-diversity according the type of the project. **(Guatemala)**

30. The issue of criteria for real, measurable and long-term benefits related to climate change, which is related to the issue of climate change effectiveness, should be addressed by taking into account the additional reduction in emissions at the CDM project level as against the baseline of the CDM project activity. The benefits related to a project activity would be recognized as real if the actual greenhouse gas (GHG) emissions can be shown to be less than the project baseline. The benefits would be recognized as measurable if the actual level of GHG emissions of the project case and the level of GHG emissions in the project baseline can be established with a reasonable degree of certainty. The benefits of a project activity would be recognized as long-term if the emission reduction persists over an appropriate period of time taking into account the differences in the life-spans of different CDM project activities, and bearing in mind Article 2 of the Convention. **(Group of 77 and China)**

31. As suggested in the previous submission, Korea considers that CDM projects should meet the following additionality conditions:

(a) Emissions additionality: CDM projects should achieve real, measurable and long-term GHG emission reductions;

(b) Investment additionality: Projects which are commercially viable without emission credits should not qualify as CDM projects;

(c) Financial additionality: Official Development Assistance (ODA) projects should not be considered as CDM projects; and

(d) Technology additionality: Technology for CDM projects should be appropriate for non-Annex I Parties and meet best available technology standards. **(Republic of Korea)**

32. Among the above additionality conditions, investment additionality deserves greater attention. If there is no distinction between Foreign Direct Investment (FDI) and CDM investment, FDI, which takes place on a commercial basis even without emission credits, could be repackaged as CDM investment, and obtain emission credits. This will result in an overflow of emission credits, which will have adverse effects on global efforts to fight against climate change. **(Republic of Korea)**

33. Distinguishing between FDI and CDM investment is not an easy task and requires further elaboration. Korea, however, considers that the concept of concessionality which applies to ODA can be considered as an exemplary criterion. According to OECD/DAC (Development Assistance Committee), ODA is required to have a "grant element" of at least 25 per cent. Additionally, the concept of the normal internal rate of return can also be considered to be a criterion for distinguishing FDI and CDM investment. Investment made below the level of the normal internal rate of return should be considered as CDM investment. **(Republic of Korea)**

34. An approved project should be registered and the emission reduction avoidance to be achieved recorded as the starting point for certification of project performance. In order to give effect to this proposal, guidelines are required for project approval procedures. **(South Africa)**

35. The project proposal should contain the information covering the following issues:

(a) Additionality (extent to which emissions would be reduced and sustainable development promoted relative to the situation in the absence of the project);

(b) Sustainable development indicators;

(c) Baseline: Internationally agreed criteria are required;

(d) Impact analysis;

(e) Confirmation of local stakeholders involvement;

(f) Externalities beyond the host country borders;

(g) Confirmation that adequate local capacity exists or will be developed;

(h) Potential for long term climate mitigation;

(i) Supplementarity (extent to which achievements of emission reduction targets of Annex B country, to be met by domestic action, are supplemented by the project);

(j) Baseline and project scenario (this includes the level of sustainable development indicators before certification of the project);

(k) Technology viability;

(l) Confirmation of secured financing (except in cases where assistance in terms of Article 12.6 [of the Kyoto Protocol] is being requested in which case the request will be included);

(m) Monitoring protocol:
- What is monitored;
- Methodology to be used;
- Reporting requirements; and
- Calibration of test and measuring equipment; and

(n) Time frame for verification and certification. **(South Africa)**

36. Annex I Parties participating in any of the three flexible mechanisms must give concrete information that their ODA flows is not declining as a result of their participation in any of the flexible mechanisms. **(Uganda)**

37. The baseline is a foundation for the calculations of GHG emission reduction and incremental costs. In order to determine the baseline for each of the projects a scenario is worked out taking into consideration of the existing processes and what will most likely occur in future in the case of business as usual. The calculation of the project baseline is carried out by the way of evaluation of existing GHG emission level with the actual production capacity and technical performances of an enterprise (Fig. 2). Being the basis for the calculation of the GHG emission reduction and abatement cost the project baseline requires thorough determination. **(Uzbekistan)**

38. The final baseline will make a basis for the contract between the investor and the enterprise implementing the project. The baseline set up at the beginning of the project remains unchanged during the whole period of project implementation. Under project registration the reliability of the baseline has to be checked by: Uzbekistan National Strategy Study (UzNSS) Steering Committee and within emissions reduction certification by an operational entity to be designated by the Conference of the Parties. **(Uzbekistan)**

39. In addition, while making the calculation of the project baseline the existing development plans of the enterprise which can result in GHG emission reduction beyond the boundaries of project implementation have to be taken into consideration. In this case the correction of the project baseline and the appropriate GHG emission reduction is to be carried out. For example, it can be corrected in case of production capacity increase or strengthening of the existing tariff policy. **(Uzbekistan)**

40. Within an identification of the baseline both investor and project promoter will be interested in possible increase of the GHG emission reduction units, that is why during its determination they will try to increase the actual scope of productive capacities resulting in GHG emissions. In order to avoid this it is necessary:

(a) To check up the project baseline reliability being performed by UzNSS Steering Committee under the project registration;

(b) To publish the baseline through Web site before signing of contract that allows to contest the agreement by third side;

(c) To reduce crediting time to interval provided the most objective determination of the baseline;

(d) To check up the baseline within GHG emission reduction certification by an operational entity to be designated by the Conference of the Parties. **(Uzbekistan)**

41. The project sides should establish proper system boundaries which would be approved by the government of the investing country and of Uzbekistan for more precise determination of the baseline. **(Uzbekistan)**

42. Under system boundaries notion is implied the scope of analyses within the limits of which fulfils the assessment of the project outputs. The system boundaries can be defined by the scale of proposed activity - productive unit, enterprise, a number of enterprises and etc. Under defining system boundaries it is necessary to reveal the factors affected significantly on the results of the project implementation, and first of all the baseline. **(Uzbekistan)**

43. In order to determine the GHG emission reduction achieved by the project it is necessary to determine the difference between the GHG emission of the baseline and project emission [...] The volume of GHG emission reduction can be banked during the whole life time of the given production while certified emission reduction for the project are only calculated for crediting time. The results of the calculations are determined by the system boundaries. The methodology approved by IPCC is used for GHG emission calculation. **(Uzbekistan)**

44. *The barrier approach:* The GHG emission reduction is taken into account for crediting in CDM projects only in case if it is additionality, i.e. this reduction does not occur in the absence of the project activity. In order to evaluate additionality principle the barrier approach can be applied which was worked out by the International Energy Agency and adopted for the JI projects in the National Strategy Study (NSS) projects. **(Uzbekistan)**

Table 1

Potential barriers	**Examples of barries**
Technological	Risks for provision of the technical service for equipment Risks for project realization
Organizational/legal	Risk of delay of the project realization beginning Substantial obstacles for receiving of direct investment Subsidies for the natural gas or heat
Financial	Shortage of the long-term capital High cost of the capital Exchange rate risks
Market	Raw material supply risks Vagueness of the prices trends for the energy carriers
Employees qualification	Weak mastering of the technologies Shortage of the qualified staff Shortage of the information about the project possibilities
Ecological	Increase of the air and water pollution Reduce of industrial waste

The barrier approach is based on the following principles:

(a) The GHG emissions offsets can be subject for CDM crediting if reduction has been achieved additionality as a result of the activity, which is impossible without additional financial investments? Technology transfer and "know-how".

(b) Projects directed to the GHG emission reduction can face different barriers: technical, financial, organizational, legal, technological, etc. in the course of their implementation.

(c) In order to meet additionality criteria the CDM project has to have certain barriers which are absent in the project baseline. At least one of the barriers should be serious.

(d) Most of the possible barriers could be broken down due to attraction of the investment. Taking into consideration the economical situation in Uzbekistan financial viability of the project can be considered as dominating factor in the evaluation of additionality. **(Uzbekistan)**

45. To data the major barrier of Uzbekistan is the limitation and high price for the investment. The commercial banks are not interested in granting credits to the investment projects aimed at environmental improvement because of the low economical effectiveness and long-term viability. **(Uzbekistan)**

46. *Additionality assessment:* Initially the financial analysis is carried out assuming the availability of the favourable local conditions for financing without taking into consideration the profit from the sale of the transferable emission reduction units. If the project has negative net cost, i.e. one main barrier is revealed, then the project can be considered additional. If the project appears to be notoriously financially viable it is necessary to carry out an analysis of other potential barriers (table 1), to reveal the necessary additional financial means for the breaking down and to include this cost into the project financial analysis. This analysis is carried out till the barrier is revealed, after which the project becomes financially enviable. Its further realization becomes possible only with participation of the external investors which will serve as a confirmation of the additionality principal for the given barrier. For example, the main barriers for Uzbekistan are limitation or absence of the investment, so called financial barrier as well as the absence of the plants manufacturing some types of the equipment which allow to reduce the GHG emissions (boilers for small and middle-size boiler houses, turbine for small hydro-power stations, gas registration devices, energy-effective lighting lamps, etc.) and conducting tariff policy on energy carriers realization. **(Uzbekistan)**

C. Monitoring, reporting, verification and certification/issuance of CERs

47. Costa Rica reaffirms the mandatory nature of monitoring as an internal process of quantification and verification of emission reduction during the lifespan of the project. The quality of the information on emission reductions will depend on the monitoring and verification protocols to be adopted and their implementation at the level of each project in the different sectors of the economy that the parties voluntarily decide to pursue. **(Costa Rica)**

48. On the basis of the effectiveness of the monitoring and verification process in environmental and accounting terms, there is a need to guarantee certain minimum requirements

such as: the application of scientifically approved methodological procedures in accordance with the type of project, standard documentation, consistent records, allocation of responsibilities and provision for non-fulfilment of commitments assumed in each project, *inter alia*. **(Costa Rica)**

49. A uniform reporting format for project-by-project reporting shall be adopted by the COP/MOP. Only projects that have been implemented may be reported. At a minimum, however, the status of implementation has to be indicated. **(Sierra Leone)**

D. Registries

(Note: A detailed submission by New Zealand on national registries, including features for their design and associated reporting requirements, is contained in document FCCC/SB/1999/MISC.3).

50. Information and transparency are key aspects for the effective operation of the CDM. The executive board of the CDM should see to the timely publication of information on trading in emission reductions carried out including *inter alia* dates, type of project, countries participating in the project, date of emission reductions traded, price of the transaction involving certified emission reductions, etc. **(Costa Rica)**

E. Procedures for the operation of the executive board

51. Information and transparency are key aspects for the effective operation of the CDM. The executive board of the CDM should see to the timely publication of information on trading in emission reductions carried out including *inter alia* dates, type of project, countries participating in the project, date of emission reductions traded, price of the transaction involving certified emission reductions, etc. **(Costa Rica)**

52. The principle of transparency must be applied to the executive board. This requires that:

(a) All meetings of the executive board should be open to attendance, as observers, by all Parties and by all accredited observers. The COP/mop should establish rules and procedures for preparation and distribution of the provisional agenda of executive board meetings and for presentations to be made to the executive board by Parties, accredited observers.

(b) There should be provisions concerning the keeping of a record of executive board decisions and requiring the Secretariat to communicate the full text of all decisions to each Party and to the categories of persons and entities that the COP/moP believes should receive them. Provision should be made for decisions to be translated and communicated to Parties in all six official UN languages. **(Saudi Arabia)**

53. Decisions concerning the principles for the: CDM and other basic elements involve consideration of the following:

(a) An understanding must be developed as to what should be the nature and extent of the "supervisory" role of the executive board over the CDM, which is referred to in Article 12.4 of the Protocol. For example, consideration should be given to whether the executive board should: (a) be able to establish rules, guidelines, or procedures that elaborate or implement decisions of the COP/moP; or (b) decide "appeals" taken from decisions or conclusions of the operational entities and/or independent auditors referred to in Articles 12.5 and 12.7, respectively; or (c) play any role (and, if so, what role) regarding: initial or final determinations of whether a project actually is resulting in claimed CERs and, if not, what happens thereafter, (d) be limited to general oversight of the activities of the operational entities and/or independent auditors for the purpose of keeping the COP/moP informed as to how activities are progressing under Article 12; or (e) engage in a combination of some or all of those roles, as well as others. The nature and extent of the executive board's "supervisory' role will affect numerous decisions that should be made by the COPmoP. Among them are:

(i) Provisions governing the frequency and location of ordinary meetings of the CDM executive board and who may call emergency meetings, as well as the circumstances in which emergency meetings may be held.

(ii) Requirements concerning reporting to the executive board by the operational entities and independent auditors,'of their decisions or conclusions; whether Parties and other entities and persons should receive such reports; and whether, and in what circumstances, the reports should be accompanied by the record of information on which they are based and who should be entitled to receive copies of such record of information.

(iii) If a decision of an operational entity to certify, or not to certify, emissions reductions may be "appealed" to the executive board, who may take such "appeal" and the procedures therefore.

(b) An understanding must. be developed as to the implications of the subordination of the executive board to the COP/moP. The nature of the relationship between the executive board and the COP/moP will affect numerous decisions that should be made by the COP/moP. Among them are:

(i) Whether "appeals' may be taken from decisions of the executive board to the COP/moP, which must be considered by the COP/moP. Whether or not such "appeals' are allowed, it must be made dear that the COP/moP is not prevented on its own initiative from reviewing, modifying, or overruling any decision or other act of the executive board.

(ii) If the COPmoP is to review or consider an executive board decision, either on the initiative of theCOP/moP or by reason of an "appeal", the respective roles of the SBI and the SBSTA should be established.

(iii) If such "appeals" are allowed, who may taken them and on what types of issues.

(iv) If such "appeals" are allowed, the time period in which they must be taken and the procedure for COP/mop consideration of the "appeal"

(v) If such "appeals" are allowed, or if the COP/moP on its own initiative reviews or considers an executive board decision, the circumstances in which the decision might be suspended pending completion of COP/moP disposition of the matter. **(Saudi Arabia)**

F. **Guidelines for operational entities**

G. **Disbursement of the share of proceeds**

54. The partition and accounting of these resources, according to the guidelines that should be developed by the COP/MOP, will be managed by the entity operating as the UNFCCC financial mechanism. Therefore, the administration of those resources will not be part of the CDM operational aspects. **(Chile)**

55. The adaptation fund would be used by those non-annex I Parties qualifying as "particularly vulnerable" to the climate change impacts, and their priorities will be established according to a Vulnerability Index set up by the Parties to the Protocol. **(Chile)**

H. **Adaptation**

III. APPENDICES TO PART FOUR: EMISSIONS TRADING

A. National systems

(Note: Germany et al. and Switzerland propose that guidelines be elaborated on the establishment, maintenance and international compatibility of national systems for accurate monitoring, verification, accountability and allocation of AAUs to legal entities (see document FCCC/SB/1999/8, para. 155, option 1).

B. Reporting

(Note: A detailed submission by New Zealand on national registries, including features for their design and associated reporting requirements, is contained in document FCCC/SB/1999/MISC.3).

C. Registries

(Note: A detailed submission by New Zealand on national registries, including features for their design and associated reporting requirements, is contained in document FCCC/SB/1999/MISC.3).

56. A central registry shall be established with the aim of tracking the generation, transfer and retirement of AAUs, CERs and ERUs transferred under the Protocol mechanisms. Any AAU, CER or ERU entered into the system should be clearly identified by its emissions value, date of generation, country of origin, and, in case of the CDM and JI, also the project of origin. Any information held by the registry shall be publicly accessible. **(AOSIS)**

57. National registries. Each Party should maintain records of details of authorized legal entities within its jurisdiction, and such information should be available both to the UNFCCC secretariat and to the public. Parties should track and record up-to-date information on all transfers and acquisitions of AAUs by authorized legal entities within their jurisdiction, through the standard electronic database system accepted by COP/MOP. Parties should also report, at least annually, to the UNFCCC secretariat the amount and serial numbers of the AAUs and the prices of all transfers and acquisitions, and publicize the information through the Internet. **(Republic of Korea)**

58. International registries. The UNFCCC secretariat should establish standard formats and procedures for drafting annual reports and reporting of transactions. The secretariat should also develop a standard electronic database system for the Parties. The UNFCCC secretariat should manage and publicize through the Internet the most up-to-date information on the authorized legal entities, their transactions, and the AAUs they possess. The UNFCCC secretariat should produce, on an annual basis, a tabulation of the adjustments to AAUs for each Party. The secretariat should prepare a report to COP/MOP, assessing the compliance status of the Parties. Such reports should be circulated by the secretariat to all Parties to the Convention and the Protocol. **(Republic of Korea)**

59. Some central register is going to have to be kept at national level with some form of roll-up to international level. It is proposed that existing institutional mechanisms for trading and banking commodities should be investigated as the basis for tracking the creation, trading and banking of CERs and ERUs. This function may also be undertaken by national central banks or similar institutions. The same institution should be used for all mechanisms. For developing countries this would typically only apply to the CDM. However, developed nations would also need to include ERUs developed under Articles 6 and 17. **(South Africa)**

60. A mechanism needs to be put in place to determine who holds valid ERUs at any one time, both to track the performance of the mechanism and to define compliance with such targets as Kyoto Protocol targets. This entity may be a national central bank or similar organization. For developing countries this would typically only apply to the CDM, but developed countries would also need to include ERUs developed under Articles 6 and 17. Reporting should be undertaken in the national communication as well as the entity managing trades etc. **(South Africa)**

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Item 3 of the provisional agenda

IMPLEMENTATION OF ARTICLE 4, PARAGRAPHS 8 AND 9, OF THE CONVENTION (DECISION 3/CP.3 AND ARTICLE 2, PARAGRAPH 3, AND ARTICLE 3, PARAGRAPH 14, OF THE KYOTO PROTOCOL)

Report on the workshop envisaged in the annex (Programme of work) to decision 5/CP.4

Note by the Chairman of the SBSTA

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Annex

Agenda for the workshop envisaged in the annex (Programme of work) to decision 5/CP.4: Implementation of Article 4, paragraphs 8 and 9, of the Convention (decision 3/CP.3 and Articles 2.3 and 3.14 of the Kyoto Protocol) 8

I. MANDATE

1. The Conference of the Parties, at its fourth session, agreed upon the programme of work set out in the annex to decision 5/CP.4, including the organization of an expert workshop. Under the guidance of Mr. Kok Kee Chow, the Chairman of the Subsidiary Body for Scientific and Technological Advice (SBSTA), assisted by Mr. Mohammad Reza Salamat, the Vice-Chairman of the Subsidiary Body for Implementation (SBI), this workshop was held from Tuesday, 21 September 1999 to Friday, 24 September 1999 at Bonn, in accordance with the terms of reference adopted by the SBSTA, at its tenth session (FCCC/SBSTA/1999/6, para. 80).

II. SCOPE

2. This document is intended to respond to the requirements of the work programme set out in decision 5/CP.4, in accordance with which the subsidiary bodies are to consider the outcome of the workshop and prepare a report including conclusions and/or a draft decision for COP 5, which would identify initial actions to address the implementation of Article 4.8 and 4.9 of the Convention, as well as Articles 2.3 and 3.14 of the Kyoto Protocol.

3. The workshop included expert presentations followed by panel discussions in which the policy-related implications of the information presented were addressed. The agenda for the workshop is included in the annex to this note.

III. WORKSHOP SUMMARY

A. Information

4. Information has been available and is being developed on the **adverse effects of climate change**. More information is needed on the nature and magnitude of the effects on countries subject to the circumstances laid out in Article 4.8 and 4.9 of the Convention. Work related to vulnerability and adaptation is still at an early stage.

5. Information gaps centre around uncertainties related to national and regional impacts and to reducing the vulnerability of natural ecosystems and semi-managed resources, as well as to potential consequences on livelihood security. There are differences in availability of data on, and in scientific understanding of, the various areas; for example, there is better understanding of small island countries and countries with low lying coastal areas than areas liable to drought and desertification. Similarly, there is much more information on water resources and agriculture than there is on food security and health. Gaps have also been identified on the interaction among different impacts, as well as on the assessment of effective adaptive strategies. It is difficult to establish with certainty the proportion of the impacts directly attributable to anthropogenic climate change.

6. Some participants felt that sufficient information was available on the **impact of the implementation of response measures** by Parties included in Annex I to the Convention (Annex I Parties). Some other participants felt that further information needed to be developed with regard to the nature and magnitude of the impact on countries subject to the circumstances laid out in Article 4.8 and 4.9 of the Convention. Some gaps also remain in the assessment of the social, economic and environmental impacts of the implementation of response measures, particularly in relation to uncertainties in determining the baselines.

B. Specific needs, concerns and special situations

7. Developing countries would be affected by the **adverse effects of climate change** in different ways, depending on their national circumstances, their economic conditions and their capacity for adaptation. The adverse effects of climate change will have an impact on the livelihood security of developing countries by affecting water resources, agriculture and food security, economic activities and health, and in particular the least developed countries, where widespread poverty limits the capacity for adaptation. Countries with areas prone to natural disasters and other climate-related risks, including small island countries and countries with low-lying coastal areas, will be more affected by the adverse effects of climate change.

8. The adverse effects of climate change would also lead to secondary effects on developing countries, and in particular on the least developed countries, which could damage the life-supporting capacity of natural systems and/or the sustainability of human habitation. Such effects might include the use of poorer quality sources of fresh water, abandonment of the rural economy, displacement of settlements and infrastructure, and the occurrence of epidemics.

9. Capacity-building related to institutions and human resources at the local, national and regional levels will need to be further developed to reduce vulnerability. Some Parties pointed out that assistance would be needed in this context. Developing countries, and particularly the least developed countries, have limited capacities for conducting research on the adverse effects of climate change and for vulnerability assessment. There is a need to move towards implementing integrated approaches, such as integrated coastal zone management, and further developing integrated assessment models, as well as identifying effective adaptation strategies and assessing how to integrate these into national development programmes.

10. The **impact of the implementation of response measures** will affect developing country Parties through changes in the terms of trade, changes in income levels, and shifts in international capital flows. In this context, an especially important sector is the international energy sector. Some participants pointed out that the models presented in the workshop showed that the oil producing developing countries may be the most adversely affected and would have to bear a disproportionate or abnormal burden. Other participants pointed out that there were disparities in the timing and magnitude of this potential impact, and that the models did not cover the range of possible response measures.

C. Addressing information gaps to support actions

11. Cooperative research on the **adverse effects of climate change** on developing countries subject to the circumstances laid out in Article 4.8 and 4.9 of the Convention is needed. In this regard, practical capacity-building measures are needed in developing countries. This research should cover the adverse effects on social and economic conditions, in particular, on water resources, agriculture, food security, economic activities and health, including in the least developed countries. The research should focus on the regional and national levels, should monitor changes in both vulnerability of ecosystems and effects of climate change, and should be integrated with an analysis of the level of certainty on the adverse effects of climate change. Research is also required to distinguish between effects due to climate change and those due to other natural phenomena or economic and social changes, as well as the extent to which climate change interacts with other natural phenomena and with socio-economic activities. More research on the potential changes in risks associated with climatic hazards such as drought, floods, and hurricanes is needed. This will also lead to information on what adaptation measures might be adopted in the most cost-effective manner and on what time-scale. Country-specific information on adaptation could be provided through national communications.

12. In addressing the **impact of the implementation of response measures**, efforts are needed to address the uncertainties in the information available on changes in patterns of trade, capital flows, availability and accessibility of new technologies, response measures undertaken by all Parties, and any influence of the Kyoto mechanisms. Modelling activities could help identify and refine our understanding of the key underlying assumptions. Country-specific information on the impact of existing policies and measures could be provided through national communications. Some participants felt that sufficient information was available to take initial actions, including actions related to funding, insurance and the transfer of technology. Other participants felt that significant uncertainties in baseline assumptions and model parameters remained, so approaches to addressing the impact of the implementation of response measures on developing country Parties would need to take into account these uncertainties.

13. More information is needed on actions related to funding, insurance and the transfer of technology to meet the needs and concerns arising from the adverse effects of climate change and/or the impact of the implementation of response measures.

D. Views on preliminary actions

14. It is recalled that the Convention has called upon the Parties to give full consideration to actions under the Convention to meet the specific needs and concerns of developing country Parties arising from the adverse effects of climate change, and the impact of the implementation of response measures. The Convention has singled out the least developed countries as a vulnerable group, and has requested the Parties to take full account of the specific needs and special situations of the least developed countries in their actions with regard to funding and transfer of technology.

(a) Initial actions addressing the adverse effects of climate change on water resources, agriculture and food security, economic activities and health, as well as on coastal zones, should focus on:

(i) Further developing methods for sensitivity, vulnerability and adaptation assessment, including through research and studies identified in section C above, and the information could be integrated in national communications;

(ii) Capacity-building in environmental management and conducting integrated assessment on areas identified in section C above;

(iii) Disseminating examples of useful strategies to reduce vulnerability;

(iv) Monitoring and systematic observation of climate change impacts in developing countries in order to facilitate timely adaptation; and

(v) Identifying adaptation measures and facilitating timely adaptation where near-term climate change impacts are well understood, and adaptation measures are feasible;

(b) Initial actions to address the impact of the implementation of response measures should focus on additional model development and assessment, including through studies identified in section C above. The information should be developed with experts from both developing and developed countries, as this will improve the models and lead to capacity-building, and the information could be integrated in national communications.

15. Some participants suggested that the policies and measures reported by Annex I Parties and the projected actions to implement the Kyoto Protocol should be examined in order to analyse potential impacts on the economies of oil producing countries and other developing countries under Article 4.8 and 4.9 of the Convention. In this context, it was also suggested that the subsidiary bodies should continue to examine information needed to minimize the adverse social, environmental and economic impacts of response measures by Annex I Parties on developing country Parties. This information should cover the following:

(a) Tax restructuring to reflect the carbon content of fuels, including measures to discourage the production of fossil fuels and nuclear energy;

(b) Compensation;

(c) Assistance to developing countries, including increasing investment, to help them diversify their economies.

Other participants stated that the uncertainties associated with the impact of the implementation of response measures are such that consideration of specific actions is at best premature. They noted that actions related to the impact of the implementation of response measures under the Kyoto Protocol would be considered at the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its first session (COP/MOP 1). These participants also pointed out that any consideration of information relating to the impact of the implementation of response measures should include examination of ways in which developing countries can adapt their economies. It should also include, *inter alia*, consideration of the potential positive effects of the implementation of response measures within the scope of the Convention and the Kyoto Protocol. The same participants recalled that compensation was not provided for under the Convention or the Kyoto Protocol.

16. Some participants stressed the need for the identification and analysis of initial actions to meet the specific needs and concerns of developing country Parties arising from the adverse effects of climate change and the impact of the implementation of response measures, including information on the possibility of using insurance and other appropriate mechanisms.

17. Some participants felt that the eleventh sessions of the subsidiary bodies should identify initial priority actions to implement Article 4.9 of the Convention. Such actions, with regard to funding and the transfer of technology, should take full account of the specific needs and special circumstances of the least developed countries. Other participants felt that it was necessary to first explore initial actions to implement Article 4.8 of the Convention.

18. Some participants suggested that workshops to address these issues could be organized by the secretariat as one option for taking the work forward. Some participants pointed out that there was no provision in the budget for 2000-2001 for such a workshop, and that in view of the possibility of other workshops being organized, a consolidated approach to the organization and timing of workshops needed to be taken.

Annex

Agenda for the workshop envisaged in the annex (Programme of work) to decision 5/CP.4 : Implementation of Article 4, paragraphs 8 and 9, of the Convention(decision 3/CP.3 and Articles 2.3 and 3.14 of the Kyoto Protocol)

21-24 September 1999
Beethovenhalle, Bonn, Germany

Day 1: Tuesday, 21 September 1999

Afternoon session

* Introduction and general overview.
  Chow Kok Kee, Chairman of the SBSTA
  Michael Zammit Cutajar, UNFCCC Executive Secretary

* Methodologies related to the adverse effects of climate change.
  Osvaldo Canziani, Co-Chairman, IPCC Working Group II
  Thomas Downing, Programme Leader, Environmental Change Unit, University of Oxford

* Impact of climate change on countries with arid and semi-arid areas, forested areas, and areas liable to forest decay; and countries with areas liable to drought and desertification.
  Dieudonné Goudou, National Environment Council, Niger
  Bubu Jallow, Department of Water Resources, Gambia
  Discussant: Massimo Candelori, UNCCD secretariat.

* Impact of climate change on countries with areas prone to natural disasters.
  Peter Walker, International Federation of Red Cross and Red Crescent Societies
  Max Campos, Comité Regional Recursos Hidraulicos, Costa Rica
  Atiq Rahman, Centre for Advanced Studies, Bangladesh

Day 2: Wednesday, 22 September 1999

Morning session

* Impact of climate change on countries with areas of high urban atmospheric pollution.
  Alexander Alusa, UNEP
  Discussant: Andrew Githeko, Kenya Medical Research Institute

* Impact of climate change on countries with low-lying coastal areas.
  Roger McLean, School of Geography and Oceanography, University of New South Wales, Australia
  Discussant: Manuel Dengo, SIDS

* Impact of climate change on small island countries.
  Graham Sem, Pacific Islands Climate Change Assistance Programme, Samoa
  Brian Challenger, Ministry of Public Utilities, Antigua and Barbuda
  Discussant: Clifford Mahlung, Meteorological Services, Jamaica

Afternoon session

* Impact of climate change on countries with areas with fragile ecosystems, including mountainous ecosystems.
  Martin Price, University of Oxford, UK
  Andrew Githeko, Kenya Medical Research Institute
  Discussant: Andreas Fischlin, Institute for Terrestial Ecology, Switzerland

* Consideration of the specific needs and special situations of the least developed countries, and land-locked and transit countries.
  Mustafa Babiker, MIT Joint Program on the Science and Policy of Global Change, USA
  Discussant: Bubu Jallow, Department of Water Resources, Gambia

* **Panel discussion**
  Discussants:
  Kiyotaka Akasaka, Deputy Director-General, Ministry of Foreign Affairs, Japan
  Mohamed Ould-el-Ghaouth, Counsellor, Ministry of Foreign Affairs, Mauritania
  Bernarditas Müller, Department of Foreign Affairs, Philippines
  Ole Ploughman, Deputy Permanent Undersecretary of State, Denmark

* Methodologies related to impacts of response measures.
  Bert Metz, Co-Chairman, IPCC Working Group III
  John Weyant, Stanford University, USA

Day 3: Thursday, 23 September 1999

Morning session

* Minimizing adverse effects of the implementation of response measures on international trade, and social, environmental and economic impacts on developing country Parties identified in Article 4.8 and 4.9 of the Convention.
  Warwick McKibbin, Australian National University
  Houshang Shojania, National Iranian Oil Company

Discussants:
Prodipto Ghosh, Asian Development Bank
John Weyant, Stanford University, USA

* Minimizing adverse effects of the implementation of response measures on countries whose economies are highly dependent on income generated from the production, processing and export, and/or on consumption of fossil fuels and associated energy-intensive products.
Davoud Ghasemzadeh, OPEC
Jonathan Pershing, IEA
Thomas Rutherford, University of Colorado, USA
Discussants:
Mustafa Babiker, MIT Joint Program on the Science and Policy of Global Change, USA
Brian Flannery, Exxon Corporation
Prodipto Ghosh, Asian Development Bank

Afternoon session

* ***(continuation of morning session)***

* **Panel discussion**
Discussants:
Evelyn Bravo, Ministry of Energy and Mines, Venezuela
Jos Delbeke, European Commission, European Community
Brian Fisher, Bureau of Agricultural and Resource Economics, Australia
Mohammad al-Sabban, Ministry of Petroleum and Mineral Resources, Saudi Arabia

Day 4: Friday, 24 September 1999

* Conclusions.

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